

CIA/OSR /MEMO PA 750107 STATEMENT OF SOV. AUTHOR JAN 75
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/MEMO PA 756107

7 January 1975

Lt. Gen. Samuel V. Wilson, USA
Deputy to the DCI for the
Intelligence Community

Dear Sam:

Thank you for calling our attention to the statement discussing the share of Soviet national income devoted to defense. Attached to this letter is our analysis of the meaning of the figures cited.

Briefly, we believe that it is unlikely that the author was claiming that the USSR currently spends 20 percent of its national income on defense. Rather, we believe that the author is citing figures on Soviet defense expenditures on the eve of World War II and during the War. The figures cited generally are consistent with those given by other authors for the war years in the USSR, although differing price bases and variation in categories that are included make comparisons difficult.

The Kravchenko book--which contained the passage in question--is one of a group of monographs and articles dealing with the Soviet war economy that we have been collecting. Apparently interest is growing in the USSR in studying the Soviet economy during World War II. Analysis of one of these studies has already improved our understanding of Soviet defense accounting and we are hopeful that further research on this collection will help us in other areas of our current work on Soviet defense expenditures.

Faithfully yours,

ONLY

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E. H. Knoche
Director
Strategic Research

Attachment

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MEMORANDUM

Statement of Soviet Author Concerning
the Share of National Income Spent
for Defense

1. A Soviet statement has recently come to light which puts the share of national income devoted to defense in some indefinite peacetime period at 20 percent. The passage, which appeared in a book by Doctor of Economics Sciences, Colonel G.S. Kravchenko, was published in 1970 and reads:

"In our strained epoch when expenditures on preparation for wars in peacetime reach 20 percent and expenditures during wars reach 60-70 percent of national income, and when these huge expenditures have a very substantial influence on the reproduction of the entire global social product and production relationships, with all the critical economic and political consequences that flow therefrom, there arises the objective necessity of calculating and analyzing the connection and interdependency of the production of military output with the production of the output of subdivisions I and II."*

2. It has been suggested that this passage may mean that the USSR currently spends 20 percent of its national income on defense. Our analysis does not support this contention. First, Kravchenko's statement is a very general one. If he is citing figures from a specific period we believe that the 20 and 60-70 percentage shares of national income refer to the eve of World War II and the War years themselves, respectively.

* Kravchenko, G.S., Ekonomika SSSR v gody Velikoy Otechestvennoy voyny, 1941-1945 (The USSR Economy in the Years of the Great Patriotic War, 1941-1945), Moscow, 1970, p. 14.

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3. The statement appears in the introduction to Kravchenko's latest study of the Soviet economy during World War II, his second on the subject. In dealing with the problem of accounting for military production within the social accounts system used by the USSR to analyze distribution of national product, Kravchenko notes that this system of accounts conceptually accommodates only two categories of production--producer goods (subdivision I) and consumer goods (subdivision II), with no provision for military goods in either category. Kravchenko argues that military production should not be included in either one or both of the subdivisions, but rather should have a separate category of its own as was the case in World War II statistics. He concludes the introduction by noting that:

"individual problems of the theory of war economy...serve to some degree as a canvas for studying the enormous factual material of the period of the Great Patriotic War of the Soviet Union."*

4. Kravchenko, like other Soviet economists writing about World War II, treats the lessons of the impact of the war on their economy as having practical significance today. There is apparently some expectation that "history will repeat itself" in case of another war, at least as far as running the economy is concerned even though the nature of the war may be very different from the previous one. This is in keeping with the best Soviet tradition of harking back to "patterns of revolutionary success" in previous times of crisis as a guide to tactics and strategy in the historical epoch of the confrontation between socialism and capitalism. For this reason, and also because the book is addressed to the "facts" (statistics) of World War II, we think the statement in question refers to the war years.

* Ibid. p. 23.

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5. Supporting the view that Kravchenko is citing figures from World War II is a statement from a monograph recently published by the USSR Ministry of Defense and edited by Doctor of Economic Sciences, P.V. Sokolov, a professor at the Military-Political Academy imeni V.I. Lenin.

"In the period of World War II, for example, the share of national income used for military purposes increased from 15 percent in 1940 to 55 percent in 1943."*

6. Sokolov's figures are below Kravchenko's but Soviet statistics of the World War II period are somewhat fuzzy depending on prices used (1926-27 prices versus current prices) and definitions of what is included in defense expenditures. Writing in 1947, for example, the then chairman of the State Planning Commission stated that in the composition of national income "the share of military expenditures, exclusive of individual consumption of armed forces personnel, increased from 7 percent in 1940 to 29 percent in 1942."** The year 1940 was the last full peacetime year before the USSR entered World War II, but it was a year of preparation for war and the term "preparation" as used by Kravchenko could easily include measures not narrowly defined as "military expenditures" by Vosnesensky.

7. A final point supporting the view that Kravchenko was referring to the World War II period is the practical observation that the USSR is extremely sensitive about its total defense burden (as opposed to the announced annual budget figure) and through its security system has never allowed a comprehensive current figure to be published. On the other hand, with the opening of World War II archives, considerable latitude has been given to publicizing the experiences of the war economy.

* Sokolov, P.V. (ed.), Politicheskaya ekonomiya: sotsializm--pervaya faza kommunisticheskogo sposoba proizvodstva (Political Economy: Socialism--the First Phase of Communism), Moscow, 1974, p. 360.

** Vosnesensky, Nikolai A., The Economy of the USSR During World War II, Public Affairs Press, Washington, D.C., 1948, p. 86. Emphasis added.

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